

REBUTTAL TESTIMONY

of

LESLIE PUGH

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Request for Increase in Water and Sewer Rates

Cedar Bluff Utilities, Inc.
Apple Canyon Utility Company
Charmar Water Company
Cherry Hill Water Company
Northern Hills Water & Sewer Company

Docket Nos. 03-0398/0399/0400/0401/0402 Consolidated

October 30, 2003

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SCHEDULES

Revenue Requirement Schedules

Schedule 6.1 -	Statement of Operating Income with Adjustments
Schedule 6.2 -	Adjustments to Operating Income
Schedule 6.3 -	Rate Base
Schedule 6.4 -	Adjustments to Rate Base
Schedule 6.5 -	Interest Synchronization Adjustment
Schedule 6.6 -	Gross Revenue Conversion Factor

Adjustment Schedules

Schedule 6.7 -	Adjustment to Cash Working Capital
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1 Witness Identification

2 **Q. Please state your name and business address.**

3 A. My name is Leslie Pugh. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5 **Q. Are you the same Leslie Pugh who previously provided direct**
6 **testimony in this proceeding?**

7 A. Yes. My direct testimony was filed on August 28, 2003 as ICC Staff
8 Exhibit 1.0 for Docket Nos. 03-0398 and 03-0400 and as ICC Staff Exhibit
9 2.0 for Docket Nos. 03-0399, 03-0401, and 03-0402.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. I am presenting the Staff of the Illinois Commerce Commission's ("Staff",
12 "ICC" or "Commission") revised Revenue Requirement schedules for
13 Cedar Bluff Utilities, Inc. and Charmar Water Company, based upon
14 Utilities, Inc.'s ("UI" or "Company") rebuttal testimony. These schedules
15 are based upon the positions of UI in its rebuttal testimony, and Staff's
16 adjustments thereto.

17 I am also presenting testimony concerning cash working capital and
18 continuing property records.

19 Schedule Identification

20 **Q. Are you sponsoring any schedules as part of your rebuttal**
21 **testimony?**

22 A. Yes. I prepared the following schedules for the Company, which show
23 data as of, or for the test year ending December 31, 2002:

24 Revenue Requirement Schedules

25 Schedule 6.1 - Statement of Operating Income with Adjustments

26 Schedule 6.2 - Adjustments to Operating Income

27 Schedule 6.3 - Rate Base

28 Schedule 6.4 - Adjustments to Rate Base

29 Schedule 6.5 - Interest Synchronization Adjustment

30 Schedule 6.6 - Gross Revenue Conversion Factor

31 Adjustment Schedule

32 Schedule 6.7 - Adjustment to Cash Working Capital

33 **Q. What is the purpose of the letters that follow the Schedule numbers?**

34 A. The letters identify the UI Companies as follows:

35 CB Cedar Bluff Utilities, Inc.

36 AC Apple Canyon Utility Company

37 C Charmar Water Utility Company

38 CH Cherry Hill Water Company

39 NH-S Northern Hills Water & Sewer Company-Sewer Schedules

40 NH-W Northern Hills Water & Sewer Company-Water Schedules

41 Thus, Schedule 6.1 CB provides information for Cedar Bluff Utilities, Inc.

42 This designation is a part of each schedule number to ease identification

43 of which companies are affected by specific adjustments.

44 Revenue Requirement Schedules

45 **Q. Please describe Schedule 6.1, Statement of Operating Income with**
46 **Adjustments.**

47 A. Schedule 6.1 is the same as ICC Staff Exhibit 1.0, Schedule 1.1,
48 described on pages 3 and 4 of ICC Staff Exhibit 1.0 for Charmar Water
49 Utility Company and Cedar Bluff Utilities, Inc., except that it incorporates
50 Company and Staff rebuttal positions. Schedule 6.1 C, column (g), line
51 24, represents the calculated Return on Staff Rate Base at the Company's
52 requested amount of increase.

53 In Kirsten E. Weeks rebuttal testimony for Charmar Water Company on p.
54 5, lines 1-6, she discusses the fact the Column (h) is an addition to the
55 Company's proposed revenues to arrive at the Staff's revenue
56 requirement in Column (i). Staff agrees with the Company's language
57 correction that Column (h) is an addition not a necessary reduction as first
58 stated in Staff's direct testimony for Charmar Water Company.

59 **Q. Please describe Schedule 6.2, Adjustments to Operating Income.**

60 A. Schedule 6.2 identifies Staff's rebuttal Adjustments to Operating Income.
61 The source of each adjustment is shown in the heading of each column.
62 Column (q) on page 2 is carried forward to Schedule 6.1, column (c).

63 **Q. Please describe Schedule 6.3, Rate Base.**

64 A. Schedule 6.3 is the same as ICC Staff Exhibit 1.0, Schedule 1.3 described
65 on page 4 of ICC Staff Exhibit 1.0 for Charmar Water Utility Company and
66 Cedar Bluff Utilities, Inc., except that it incorporates current Company and
67 Staff positions.

68 **Q. Please describe Schedule 6.4, Adjustments to Rate Base.**

69 A. Schedule 6.4 identifies Staff's Adjustments to Rate Base. The source of
70 each adjustment is shown in the heading of each column. Column (i) is
71 carried forward to ICC Staff Exhibit 6.0, Schedule 6.3, column (c).

72 **Q. Please explain Schedule 6.5, Interest Synchronization Adjustment.**

73 A. Schedule 6.5 uses the same concept, as does ICC Staff Exhibit 1.0,
74 Schedule 1.5. The theory is discussed on ICC Staff Exhibit 1.0, pages 4
75 and 5.

76 **Q. Please describe Schedule 6.6, Gross Revenue Conversion Factor?**

77 A. Schedule 6.6 uses the same concept as ICC Staff Exhibit 1.0, Schedule
78 1.6. The theory is discussed on ICC Staff Exhibit 1.0, page 5.

79 Adjustment to Cash Working Capital

80 **Q. Please explain Schedule 6.7, Adjustment to Cash Working Capital?**

81 A. Schedule 6.7, Adjustment to Cash Working Capital is a revision of ICC
82 Staff Exhibit 1.0, Schedule 1.7 to reflect Staff's rebuttal adjustments. The
83 methodology for calculating the cash working capital is discussed on ICC
84 Staff Exhibit 1.0, page 6.

85 Continuing Property Records

86 **Q. Do you agree with Mr. Lubertoizzi's rebuttal testimony for Apple**
87 **Canyon Utility Company, pgs. 7-8 stating that UI's general ledger and**
88 **annual report constitute continuing property records ("CPR")?**

89 A. No. Staff does not agree with Mr. Lubertoizzi's argument that UI's general
90 ledger and annual report constitute continuing property records. USOA
91 Accounting Instruction #28 for Water Utilities Operating in Illinois (83 Ill.
92 Adm. Code 605) states:

93 **28. Utility Plant – Work Order and Property Record**
94 **System Required**

95 A. Each utility shall record all construction and retirements of
96 utility plant by means of work orders or job orders. Separate work
97 orders may be opened for additions to and retirements of utility
98 plant or the retirements may be included with the construction work
99 order, provided, however, that all items relating to the retirements
100 shall be kept separate from those relating to construction and
101 provided, further that any maintenance costs in the work shall
102 likewise be segregated.

103 B. Each utility shall keep its work order system so as to show
104 the nature of each addition to or retirement of utility plant, the total
105 cost thereof, the source or sources of costs, and the utility plant
106 account or accounts to which charged or credited. Work orders
107 covering jobs of short duration may be cleared monthly.

C. Each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and the cost of the various retirement units or other appropriate record units included therein.

In addition, 83 Ill. Adm. Code 615, The Preservation of Records of Water Utilities, applies to all books of account and other records prepared by or on behalf of the public utility. Appendix A addresses the retention period as follows:

12. (a) General, departmental, divisional and petty journal vouchers. – Period to be retained: Permanently.
22. (a) Ledgers of utility plant accounts, including land and other ledgers, showing the cost of utility plant by prime accounts. – Period to be retained: Permanently.
- (b) Continuing plant inventory records, showing description, location, quantity, cost, etc. of physical units (or items) of utility plant owned. – Period to be retained: Until record is superseded or 6 years after plant is retired, provided mortality data are retained as provided in Item 31.
29. (a) Contracts or agreements relating to acquisition, sale, or other disposition of operating units or system of utility plant. – Period to be retained: Permanently.

Mr. Lubertozi believes that the Company's general ledger is an adequate substitute for continuing property records. However, a general ledger does not contain sufficient information on utility plant.

The National Association of Regulatory Utility Commissioners (NARUC) defines continuing property records as a system of preserving original cost of plant in such a manner so as to at all times be able to identify, locate,

obtain cost and disclose age of all used and useful property. It is the aim of regulatory commissions to have proof of value readily available on the books of the utility and that only prudent investment should be capitalized. This aim can be accomplished by requiring utilities to set up and maintain continuing property records. Ratemaking principles require that continuing property records should include the following information:

1. asset description in sufficient detail of all property to permit their ready identification and verification;
2. serial number of asset;
3. the location of the property to allow spot check for physical existence;
4. sufficient reference to all sources of cost of physical units (or items);
5. the total cost of utility plant by prime accounts;
6. amounts of annual additions and retirements classified so as to show the number and the cost of the various retirement units or other appropriate record units;
7. the quantity of physical units (or items); and,
8. computations of depreciation, depletion and amortization expense, including accumulated provisions, therefore, and such data as life and salvage studies.

The system should be arranged in conformity with plant accounts prescribed in the USOA and the plant accounts shall at all times disclose the original cost of all property in service. Also contracts and other agreements relating to acquisition, sale or other disposition of operating units or system of utility plant shall be retained permanently.

The basic purpose of CPRs is to have at all times a detailed record of the quantities and original cost of plant in service. It is the equivalent of a current physical inventory priced at original cost and recorded in such a

164 manner as to provide rapid proof of property. It obviates the need for
165 valuation whenever current rate base is needed.

166 Furthermore, continuing property records has been an ongoing issue with
167 Utilities, Inc. In Docket No. 94-0157, approval of the execution of an
168 amendment to a contract with Water Service Corp., the Utilities, Inc.
169 agreed to maintain continuing property records using the "Will County
170 Water Company continuing property records" as a model. It is apparent
171 that the Company has not implemented the property record program as
172 ordered in Docket No. 94-0157.

173 **Q. Do you have any recommendations regarding continuing property**
174 **records?**

175 Yes. A general ledger, that Mr. Lubertozi believes contains the
176 information necessary to construct continuing property records, is the
177 primary ledger that contains all of the balance sheet and income
178 statement account balances. However, a general ledger does not provide
179 the detail required. Since the Commission has previously ordered the
180 Company in Docket No. 94-0157 to maintain continuing property records, I
181 recommend the Commission compel the Company to establish and
182 maintain continuing property records in compliance with the Commission's
183 rules. I also recommend that the Company file a report with the Manager
184 of the ICC's Accounting Department as to the successful implementation

185 of the property record program. Such a report should be filed 12 months
186 after the final order in this proceeding. Finally, continuing property records
187 will benefit the Company and Staff in reviewing property records during
188 future rate cases.

189 Conclusion

190 **Q. Does this question end your rebuttal testimony?**

191 **A. Yes.**

Cedar Bluff Utilities, Inc.
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Staff Ex. 6.0 Sch. 6.2 CB)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 46,104	\$ -	\$ 46,104	\$ 11,270	\$ (392)	\$ 56,982	\$ (7,882)	\$ 49,100
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	46,104	-	46,104	11,270	(392)	56,982	(7,882)	49,100
4	Uncollectible Accounts	4	-	4	1	-	5	(1)	4
5	Maintenance Expenses	25,178	-	25,178	-	-	25,178	-	25,178
6	General Expenses	14,131	(6,124)	8,007	-	-	8,007	-	8,007
7	Depreciation	11,754	(275)	11,479	-	-	11,479	-	11,479
8	Amortization of CIAC	(5,326)	-	(5,326)	-	-	(5,326)	-	(5,326)
9	Taxes Other Than Income	1,312	1,454	2,766	34	(34)	2,766	-	2,766
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	47,053	(4,945)	42,108	35	(34)	42,109	(1)	42,108
17	State Income Tax	(206)	224	18	562	(358)	222	(148)	74
18	Federal Income Tax	(1,194)	1,503	309	3,629	-	3,938	(2,629)	1,309
19	Deferred Taxes and ITCs Net	(193)	-	(193)	-	-	(193)	-	(193)
20	Total Operating Expenses	45,460	(3,218)	42,242	4,226	(392)	46,076	(2,778)	43,298
21	NET OPERATING INCOME	\$ 644	\$ 3,218	\$ 3,862	\$ 7,044	\$ -	\$ 10,906	\$ (5,104)	\$ 5,802
22	Staff Rate Base (ICC Staff Exhibit 6.0, Schedule 6.3 CB, Column (d))								\$ 68,342
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 2,996
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								6.50%

Cedar Bluff Utilities, Inc.
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Ex. 6.0 Sch. 6.5 CB)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 CB)	Add-On Taxes (Staff Ex. 2.0 Sch. 2.1CB)	Non-Health Insurance Exp (Staff Ex. 2.0 Sch. 2.2 CB)	Income Taxes (Staff Ex. 2.0 Sch. 2.3 CB)	Health Insurance Exp (Staff Ex. 7.0 Sch. 7.7 CB)	Rate Case Expense (Staff Ex. 7.0 Sch. 7.8 CB)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	-	(153)	-	(576)	(290)	(1,019)
7	Depreciation	-	(275)	-	-	-	-	-	(275)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	(46)	-	-	-	-	(46)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(275)	(46)	(153)	-	(576)	(290)	(1,340)
17	State Income Tax	3	5	1	3	128	11	5	156
18	Federal Income Tax	54	92	15	51	(201)	192	97	300
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	57	(178)	(30)	(99)	(73)	(373)	(188)	(884)
21	NET OPERATING INCOME	\$ (57)	\$ 178	\$ 30	\$ 99	\$ 73	\$ 373	\$ 188	\$ 884

Cedar Bluff Utilities, Inc.
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Monthly Billing Exp (Staff Ex. 7.0 Sch. 7.9 CB)	Amortize Insurance Claim Expense (Staff Ex. 7.0 Sch. 7.10 CB)	New IEPA Fee (Staff Ex. 7.0 Sch. 7.11 CB)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	(1,019)	(627)	(4,478)	-	-	-	-	(6,124)
7	Depreciation	(275)	-	-	-	-	-	-	(275)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(46)	-	-	1,500	-	-	-	1,454
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(1,340)	(627)	(4,478)	1,500	-	-	-	(4,945)
17	State Income Tax	156	12	84	(28)	-	-	-	224
18	Federal Income Tax	300	209	1,494	(500)	-	-	-	1,503
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(884)	(406)	(2,900)	972	-	-	-	(3,218)
21	NET OPERATING INCOME	\$ 884	\$ 406	\$ 2,900	\$ (972)	\$ -	\$ -	\$ -	\$ 3,218

Cedar Bluff Utilities, Inc.
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Staff Ex. 6.0 Sch 6.2 CB)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 434,883	\$ (9,761)	\$ 425,122
2	Accumulated Depreciation	(124,045)	(46,993)	(171,038)
3	-	-	-	-
4	Net Plant	310,838	(56,754)	254,084
5	Additions to Rate Base			
6	Water Service Corporation	3,618	1,210	4,828
7	Cash Working Capital	5,078	(647)	4,431
8	-	-	-	-
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(225,837)	47,837	(178,000)
18	Accumulated Deferred Income Taxes	(11,798)	272	(11,526)
19	Customer Advances for Construction	-	(5,475)	(5,475)
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 81,899</u>	<u>\$ (13,557)</u>	<u>\$ 68,342</u>

Cedar Bluff Utilities, Inc.
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Staff Ex. 6.0 Sch. 6.7 CB)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 CB)	CIAC (Staff Ex. 1.0 Sch. 1.9 CB)	Customer Advances for Construction (Staff Ex. 1.0 Sch. 1.10 CB)	WSC for Correction of Error (Staff Ex. 1.0 Sch. 1.11 CB)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ (9,761)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9,761)
2	Accumulated Depreciation	-	844	(47,837)	-	-	-	-	(46,993)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	(8,917)	(47,837)	-	-	-	-	(56,754)
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	1,210	-	-	1,210
7	Cash Working Capital	(647)	-	-	-	-	-	-	(647)
8		-	-	-	-	-	-	-	-
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Contributions in Aid of Construction	-	-	47,837	-	-	-	-	47,837
18	Accumulated Deferred Income Taxes	-	272	-	-	-	-	-	272
19	Customer Advances for Construction	-	-	-	(5,475)	-	-	-	(5,475)
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	<u>\$ (647)</u>	<u>\$ (8,645)</u>	<u>\$ -</u>	<u>\$ (5,475)</u>	<u>\$ 1,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,557)</u>

Cedar Bluff Utilities, Inc.
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 68,342 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	3,069
4	Company Interest Expense	<u>3,232</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(163)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	\$ <u>3</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	\$ <u><u>54</u></u>

(1) Source: ICC Staff Ex. 6.0, Schedule 6.3 CB, Column (d)

(2) Source: ICC Staff Ex. 4.0, Schedule 4.1

(3) Source: Company Schedule B

Cedar Bluff Utilities, Inc.
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.0100%	<u>0.000100</u>	
3	State Taxable Income		0.999900	1.000000
4	State Income Tax	1.8763%	<u>0.018761</u>	<u>0.018763</u>
5	Federal Taxable Income		0.981139	0.981237
6	Federal Income Tax	34.0000%	<u>0.333587</u>	<u>0.333621</u>
7	Operating Income		<u>0.647552</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.544278</u>	<u>1.544125</u>

Cedar Bluff Utilities, Inc.
Working Capital Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 25,178	ICC Staff Exhibit 6.0, Schedule 6.1 CB, col (d), line 5
2	General Expense	8,007	ICC Staff Exhibit 6.0, Schedule 6.1 CB, col (d), line 6
3	Taxes Other Than Income	2,766	ICC Staff Exhibit 6.0, Schedule 6.1 CB, col (d), line 9
4	Less Real Estate Taxes	<u>(505)</u>	Company workpaper [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 35,446	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days/360 days
7	Working Capital Allowance Per Staff	<u>4,431</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	5,078	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (647)</u>	Line 7 less line 9

Apple Canyon Utility Company
Working Capital Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 92,077	Schedule 7.1 CH, col (d), line 5
2	General Expense	64,141	Schedule 7.1 CH, col (d), line 6
3	Taxes Other Than Income	14,358	Schedule 7.1 CH, col (d), line 9
4	Less Property Taxes	<u>(2,452)</u>	Company response to Staff data request DLH-1.02, W/P [f]
5	Operating Expenses Subject to Working Capital Allowance	168,124	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	
7	Working Capital Allowance Per Staff	<u>21,015</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	24,840	Company Schedule C, Column As Adjusted
9	Adjustment	<u><u>\$ (3,825)</u></u>	Line 7 less line 8

Charmar Water Utility Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Staff Ex. 6.0 Sch. 6.2 C)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	See Note 1	
								Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 20,597	\$ -	\$ 20,597	\$ 12,650	\$ (439)	\$ 32,808	\$ 2,002	\$ 34,810
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	20,597	-	20,597	12,650	(439)	32,808	2,002	34,810
4	Uncollectible Accounts	2	-	2	1	-	3	-	3
5	Maintenance Expenses	12,546	-	12,546	-	-	12,546	-	12,546
6	General Expenses	4,543	(833)	3,710	-	-	3,710	-	3,710
7	Depreciation	2,420	(114)	2,306	-	-	2,306	-	2,306
8	Amortization of CIAC	(45)	-	(45)	-	-	(45)	-	(45)
9	Taxes Other Than Income	1,017	(21)	996	38	(38)	996	-	996
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	20,483	(968)	19,515	39	(38)	19,516	-	19,516
17	State Income Tax	(191)	131	(60)	631	(401)	170	38	208
18	Federal Income Tax	(4,605)	3,535	(1,070)	4,073	-	3,003	668	3,671
19	Deferred Taxes and ITCs Net	3,301	-	3,301	-	-	3,301	-	3,301
20	Total Operating Expenses	18,988	2,698	21,686	4,743	(439)	25,990	706	26,696
21	NET OPERATING INCOME	\$ 1,609	\$ (2,698)	\$ (1,089)	\$ 7,907	\$ -	\$ 6,818	\$ 1,296	\$ 8,114
22	Staff Rate Base (ICC Staff Exhibit 6.0, Schedule 6.3 C, Column (d))								\$ 95,573
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Resulting Return on Rate Base (Col. (g) Line 21 divided by Col (i) Line 22)						7.13%		
25	Revenue Change (Col. (e), line 3)					\$ 12,650			
26	Percentage Revenue Change (Col. (i), Line 25 divided by Col. (d), Line 3)					61.42%			

Note 1: The Company should be granted the \$12,650 increase requested as explained in ICC Exhibit 6.0, page 5, lines 49-51.

Charmar Water Utility Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Staff Ex. 6.0 Sch. 6.5 C)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 C)	Add-On Taxes (Staff Ex. 2.0 Sch. 2.1 C)	Non-Health Insurance Exp (Staff Ex. 2.0 Sch. 2.2 C)	Income Taxes (Staff Ex. 2.0 Sch. 2.3 C)	Health Insurance Exp (Staff Ex. 7.0 Sch. 7.7 C)	Rate Case Expense (Staff Ex. 7.0 Sch. 7.8 C)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	-	(62)	-	(321)	(262)	(645)
7	Depreciation	-	(114)	-	-	-	-	-	(114)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	(21)	-	-	-	-	(21)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(114)	(21)	(62)	-	(321)	(262)	(780)
17	State Income Tax	(5)	2	-	1	118	6	5	127
18	Federal Income Tax	(97)	38	7	21	3,309	107	87	3,472
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(102)	(74)	(14)	(40)	3,427	(208)	(170)	2,819
21	NET OPERATING INCOME	\$ 102	\$ 74	\$ 14	\$ 40	\$ (3,427)	\$ 208	\$ 170	\$ (2,819)

Charmar Water Utility Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Monthly Billing Exp (Staff Ex. 7.0 Sch. 7.9 C)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -				\$ -	\$ -
2	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	(645)	(188)	-	-	-	-	-	(833)
7	Depreciation	(114)	-	-	-	-	-	-	(114)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(21)	-	-	-	-	-	-	(21)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(780)	(188)	-	-	-	-	-	(968)
17	State Income Tax	127	4	-	-	-	-	-	131
18	Federal Income Tax	3,472	63	-	-	-	-	-	3,535
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	2,819	(121)	-	-	-	-	-	2,698
21	NET OPERATING INCOME	\$ (2,819)	\$ 121	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,698)

Charmar Water Utility Company
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Staff Ex. 6.0 Sch 6.2 C)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 117,885	\$ (8,433)	\$ 109,452
2	Accumulated Depreciation	(7,306)	1,255	(6,051)
3	-	-	-	-
4	Net Plant	110,579	(7,178)	103,401
5	Additions to Rate Base			
6	Water Service Corporation	1,953	-	1,953
7	Cash Working Capital	2,263	(111)	2,152
8	Accumulated Amortization of CIAC	-	405	405
9	-	-	-	-
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(1,807)	180	(1,627)
18	Accumulated Deferred Income Taxes	(11,633)	922	(10,711)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 101,355</u>	<u>\$ (5,782)</u>	<u>\$ 95,573</u>

Charmar Water Utility Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Staff Ex. 6.0 Sch. 6.7 C)	Unsubstantiated Plant (Staff Ex. 1.0 Sch. 1.8 C)	CIAC (Staff Ex. 1.0 Sch. 1.9 C)	Previous Order Adjustments (Staff Ex. 1.0 Sch. 1.10 C)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ (5,922)	\$ -	\$ (2,511)	\$ -	\$ -	\$ -	\$ (8,433)
2	Accumulated Depreciation	-	1,022	(180)	413	-	-	-	1,255
3		-	-	-	-	-	-	-	-
4	Net Plant	-	(4,900)	(180)	(2,098)	-	-	-	(7,178)
5	Additions to Rate Base	-	-	-	-	-	-	-	-
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(111)	-	-	-	-	-	-	(111)
8	Accumulated Amortization of CIAC	-	-	-	405	-	-	-	405
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	180	-	-	-	-	180
18	Accumulated Deferred Income Taxes	-	763	-	159	-	-	-	922
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (111)	\$ (4,137)	\$ -	\$ (1,534)	\$ -	\$ -	\$ -	\$ (5,782)

Charmar Water Utility Company
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 95,573 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	4,291
4	Company Interest Expense	<u>3,999</u> (3)
5	Increase (Decrease) in Interest Expense	<u>292</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	\$ (5)
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ (97)</u>

(1) Source: ICC Staff Ex. 6.0, Schedule 6.3 C, Column (d), line 23

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1

(3) Source: Company Schedule B

Charmar Water Utility Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.0100%	<u>0.000100</u>	
3	State Taxable Income		0.999900	1.000000
4	State Income Tax	1.8763%	<u>0.018761</u>	<u>0.018763</u>
5	Federal Taxable Income		0.981139	0.981237
6	Federal Income Tax	34.0000%	<u>0.333587</u>	<u>0.333621</u>
7	Operating Income		<u>0.647552</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.544278</u>	<u>1.544125</u>

Charmar Water Utility Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 12,546	ICC Staff Exhibit 6.0, Schedule 6.1 C, col (d), line 5
2	General Expense	3,710	ICC Staff Exhibit 6.0, Schedule 6.1 C, col (d), line 6
3	Taxes Other Than Income	996	ICC Staff Exhibit 6.0, Schedule 6.1 C, col (d), line 9
4	Less Property Taxes	<u>(35)</u>	Company workpaper [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 17,217	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>2,152</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	2,263	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (111)</u>	Line 7 less line 8

Cherry Hill Water Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 42,577	ICC Staff Exhibit 7.0, Schedule 7.1 CH, col (d), line 5
2	General Expense	15,403	ICC Staff Exhibit 7.0, Schedule 7.1 CH, col (d), line 6
3	Taxes Other Than Income	10,884	ICC Staff Exhibit 7.0, Schedule 7.1 CH, col (d), line 9
4	Less Property Taxes	<u>(7,931)</u>	Company response to Staff data request DLH-1.02, W/P [f]
5	Operating Expenses Subject to Working Capital Allowance	\$ 60,933	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>7,617</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	9,225	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (1,608)</u>	Line 7 less line 8

Northern Hills Water & Sewer Company-Water Operations
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 15,044	ICC Staff Exhibit 7.0, Schedule 7.1 NH-W, col (d), line 5
2	General Expense	7,396	ICC Staff Exhibit 7.0, Schedule 7.1 NH-W, col (d), line 6
3	Taxes Other Than Income	2,186	ICC Staff Exhibit 7.0, Schedule 7.1 NH-W, col (d), line 9
4	Less Property Taxes	<u>(1,402)</u>	Company response to Staff data request DLH-1.02, W/P [e]
5	Operating Expenses Subject to Working Capital Allowance	\$ 23,224	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>2,903</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	3,222	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (319)</u>	Line 7 less line 8

Northern Hills Water & Sewer Company-Sewer Operations
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2002

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Maintenance Expenses	\$ 35,337	ICC Staff Exhibit 7.0, Schedule 7.1 NH-S, col (d), line 5
2	General Expense	8,076	ICC Staff Exhibit 7.0, Schedule 7.1 NH-S, col (d), line 6
3	Taxes Other Than Income	3,865	ICC Staff Exhibit 7.0, Schedule 7.1 NH-S, col (d), line 9
4	Less Property Taxes	<u>(1,516)</u>	Company response to Staff data request DLH-1.02, W/P [e]
5	Operating Expenses Subject to Working Capital Allowance	\$ 45,762	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	0.125	45 days / 360 days
7	Working Capital Allowance Per Staff	<u>5,720</u>	Line 5 times line 6
8	Working Capital Allowance Per Company	5,868	Company Schedule C, Column As Adjusted
9	Adjustment	<u>\$ (148)</u>	Line 7 less line 8